- Using these tariffs is not optional for AT&T in the future
- If AT&T does not use MVP, unit costs will go up in the near term - dramatically

- If there were alternatives…
- No customer would accept the anti-competitive terms of MVP or MIBS

- At that time the initial MVP tariffs, commitments based upon percent of previous spend were less of a concern – forecasts projected continued rapid growth in all service categories.
- Things have changed, and more change is possible through competition and new technology.

  *Business Climate*
  - "Irrational Exuberance" to Optimization and Constrained Demand
  - Infinite Growth to Stranded Plant, Over-Capacity

  *Supplier Alternatives*
  - Metro Facility CAPS to Cable, Wireless and Powerline
  - Geographically Limited Footprint to Ubiquitous Technology

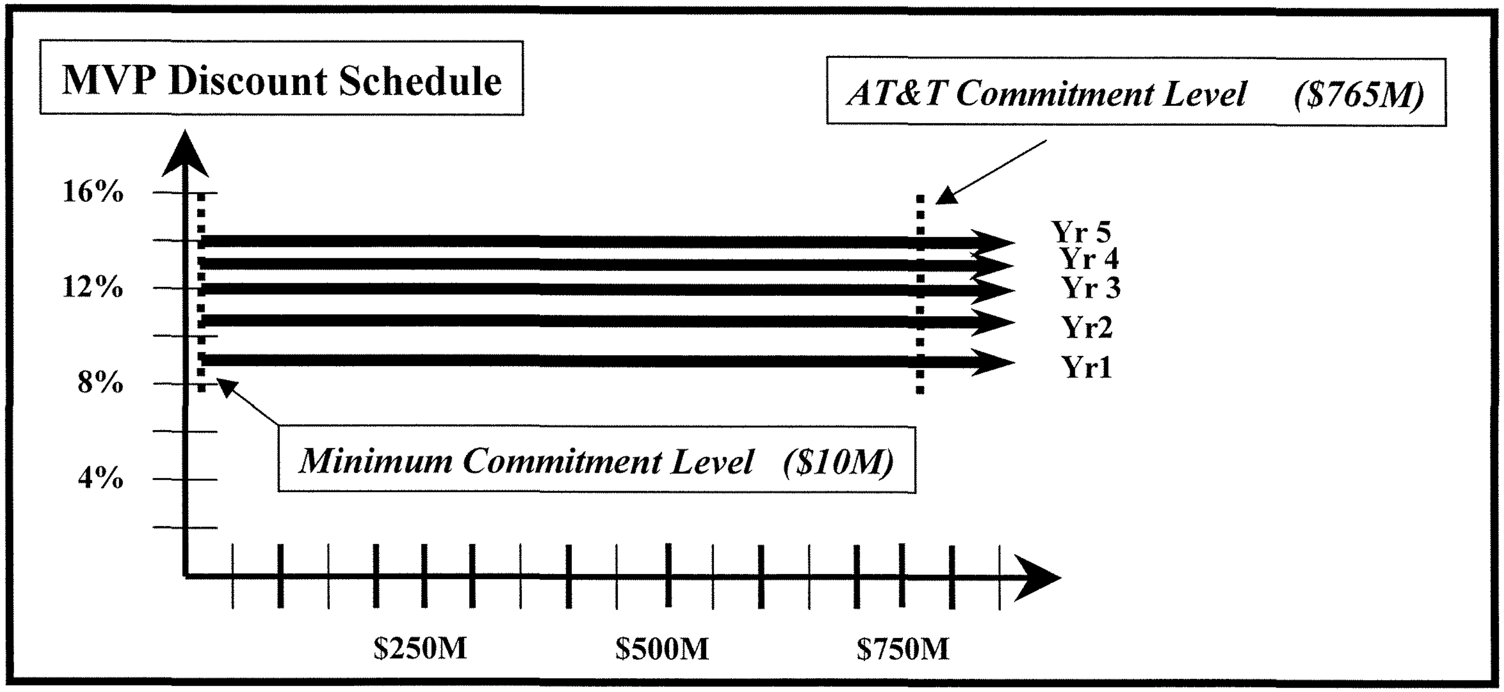
  *Technologies and Services*
  - TDM / Private Line / POTS to ATM / Packet / VOIP
  - Bulk Capacity to Bandwidth On Demand
  - Best in Class to Best Effort

  *Customer Expectations*
  - Generic Reliability to Application-Specific Service Quality
  - Stability to Flexibility
- ILEC special service optional payment plans (like MIBS) cannot be allowed to require customers to "lock-in" current purchase levels.
  - Plan requirements must not "look back".
  - Plans must look forward.

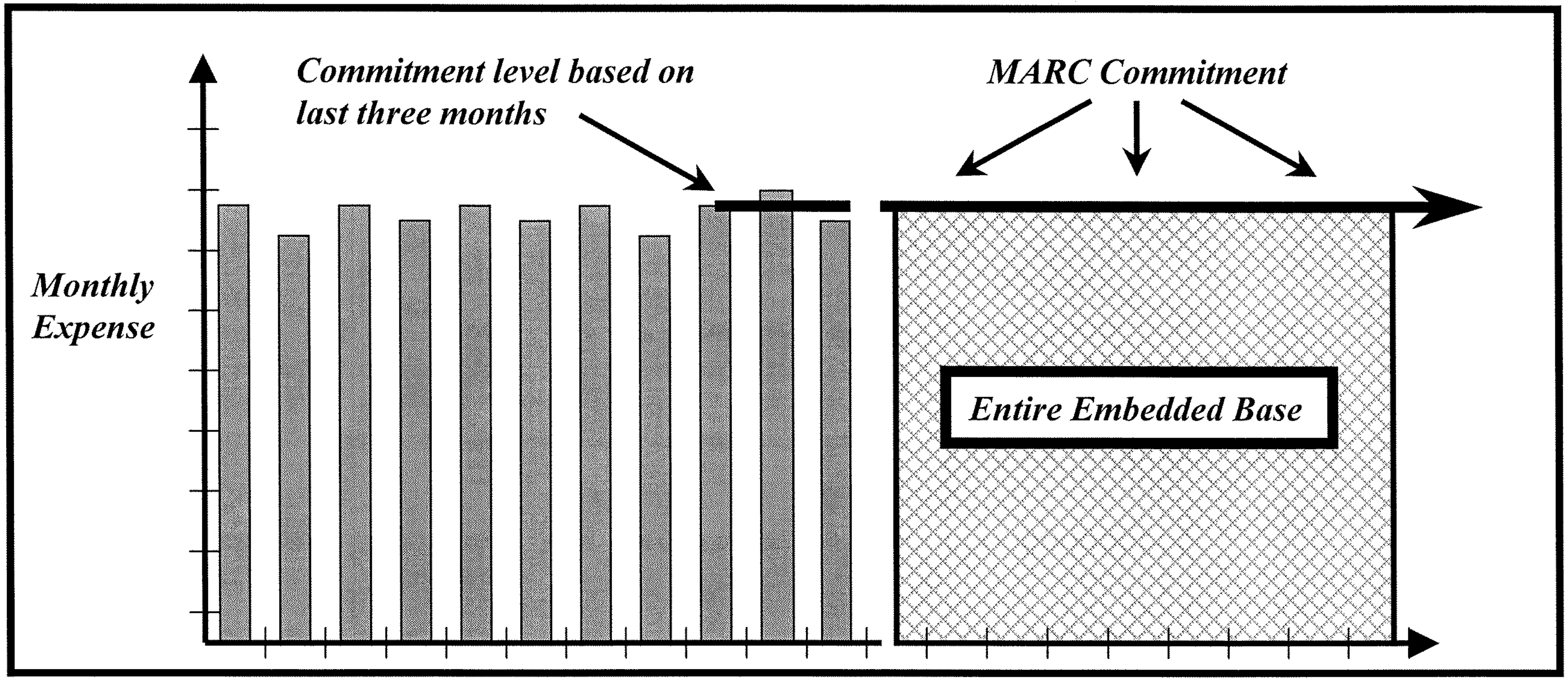
## *DS1 Unit Problem*

- SBC DS1 market share is in excess of 90%
- DS1 competition is limited - it is the last mile product
- Even where competitive carriers do operate, SBC DS1 unit cost are about 40% higher than competitors
- Given this market share and pricing , SBC will not voluntary reduce rates
- SBC may reduce prices to competitive levels if:
  - FCC action – re-regulation
  - Ensuring UNE DS1's are permitted as an economical replacement
  - Use of competitive and technological alternatives is possible
    - IP
    - Wireless
    - Packet
    - Broadband

- What Should a Competitive Plan Include?
  - Commitment Choice
  - Unit Costs that Reflect a Forward-Looking Competitive Market
  - Optimized Network Configuration
  - Next Generation Technology Savings Passed on to Customer

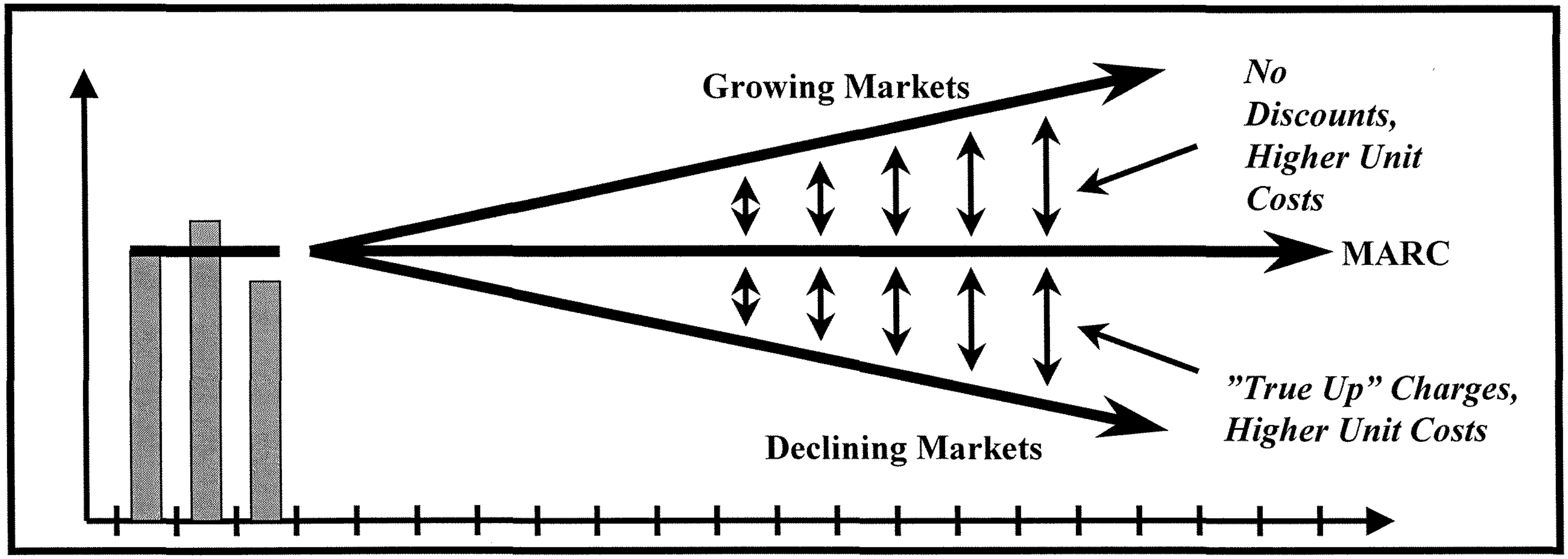



- Current MVP tariff provides discounts for annual commitment levels as low as $10M.
- Commitment levels are established at 100% of the total expense at the beginning of the five year plan.
- Discounts increase from 9% in the first year to 14% in the fourth and fifth years.
- Discounts are independent of the committed expense volume.
  - Discounts afforded under this plan remain the same for large and small purchasers.
- AT&T's commitment level of $765M is over 75 times greater than the minimum.




- MVP minimum expense commitments are set to encompass the entire existing expense stream to SBC. SBC refers to this as the 'Minimum Annual Revenue Commitment", known as the "MARC".
- This MARC renders SBC's embedded base "un-addressable" by alternative suppliers.
- SBC has indicated "roughly 65% of all special access revenues" are covered under the MVP tariff, demonstrating that the MVP discounts are critical price floor for the majority of wholesale special access

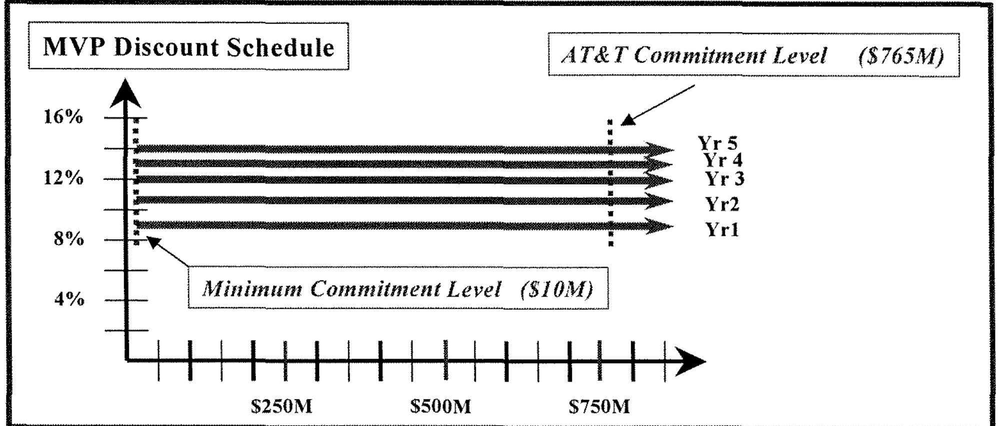
## Managing The MARC

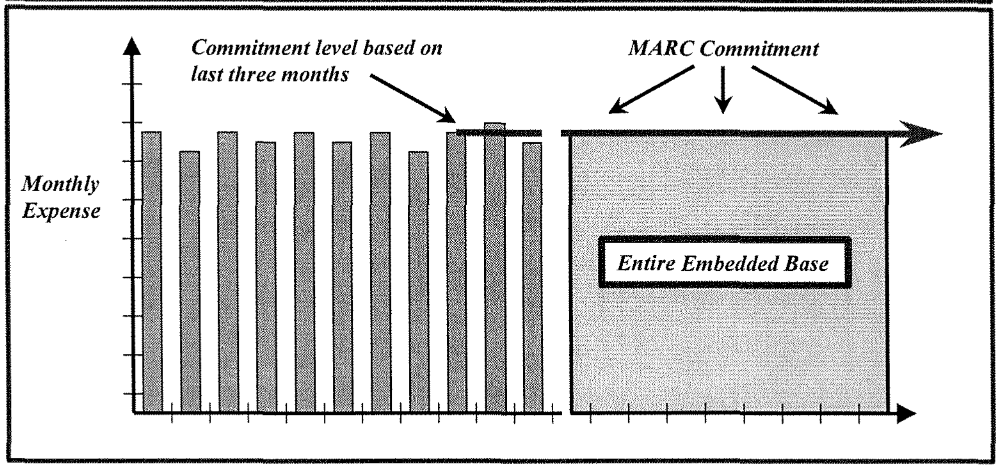



- Customers who exceed their MVP commitments receive no discounts beyond the MARC.
- As markets grow, SBC forces their wholesale customers to increase their MARC to continue to receive discounts.
- Increases in the MARC render an even larger embedded base out of reach for competitors.
- Customers who fall below the MARC pay "True Up" charges to SBC.
- SBC insulates itself from market risk by requiring its wholesale customers to "keep SBC whole".

## MVP Tariff

## Anti-Competitive Issues



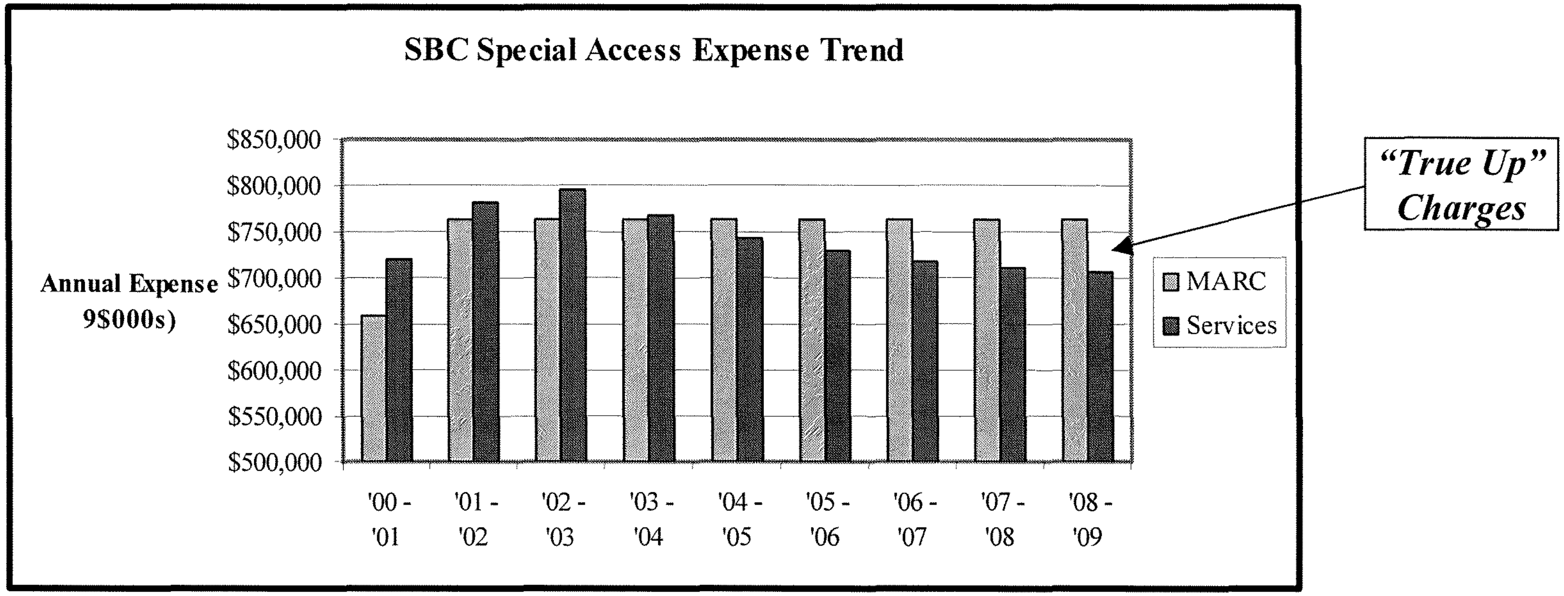

- Although SBC positions the MVP as a "volume" discount program, discounts are independent of expense "volume" once $10M is achieved and depend solely on commitment of 100% of existing business.
- SBC's OPP contracts already provide a term commitment – the vast majority of AT&T's circuits are already covered by 5 year OPP commitments.
- SBC's MVP tariff freezes access competitors out of the current embedded base of customers, limiting their addressable market to new growth only.

**The prospects for increased "true up" expenses places competing access suppliers at a competitive disadvantage once an MVP is in place, despite competitors' significantly lower unit costs for actual services.**

## Anti-Competitive Issues

- Tariff requires 100% Commitment of current spend throughout life of Contract and beyond, no matter how large or small the commitment
  - Commitment can Increase but Cannot Decrease
  - Because no discount for excess spend, Customer must continually refresh commitment or effectively receive a lower discount
  - At end of commitment, Customer must continue at current level to retain 14% discount attained in Year 5 or forfeit discounts for 6 months and then start at 9% on new base
- Shortfall Penalties
  - Pay dollar for dollar on expenses below the Commitment
- Must Maintain an Access Service Ratio of 95%
  - Cannot Purchase More than 5% of Dedicated Access through UNE

## Recasting the MARC



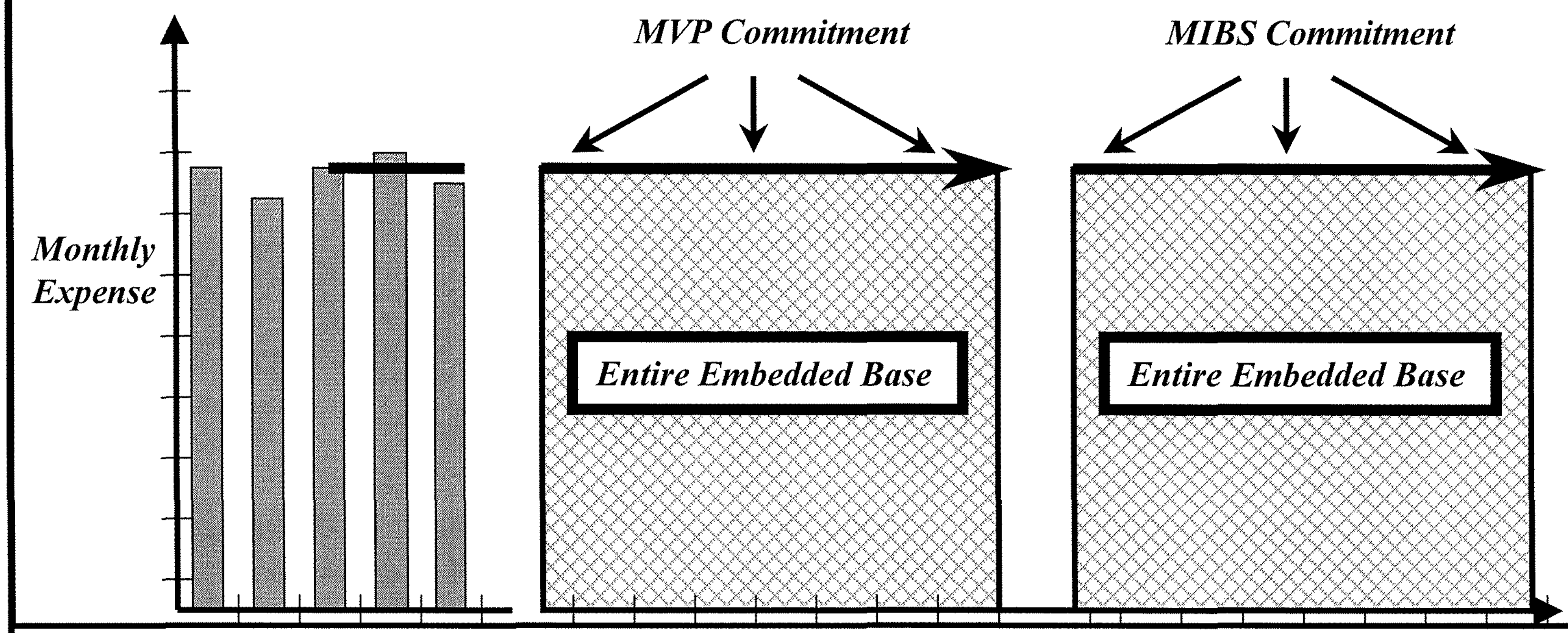

**AT&T negotiated an increase in the MARC commitment on September 2001, to reflect the still burgeoning market conditions prior to the collapse of the telecom market.**

**At that time, commitments based upon percent of current spend were less of a concern – forecasts projected continued rapid growth in all service categories.**

**Things have changed, and more change through competition and new technology is possible --- IF**

**Future plans (like MIBS) cannot be allowed to lock in these levels. Plan requirements must not "look back". Plans must look forward.**

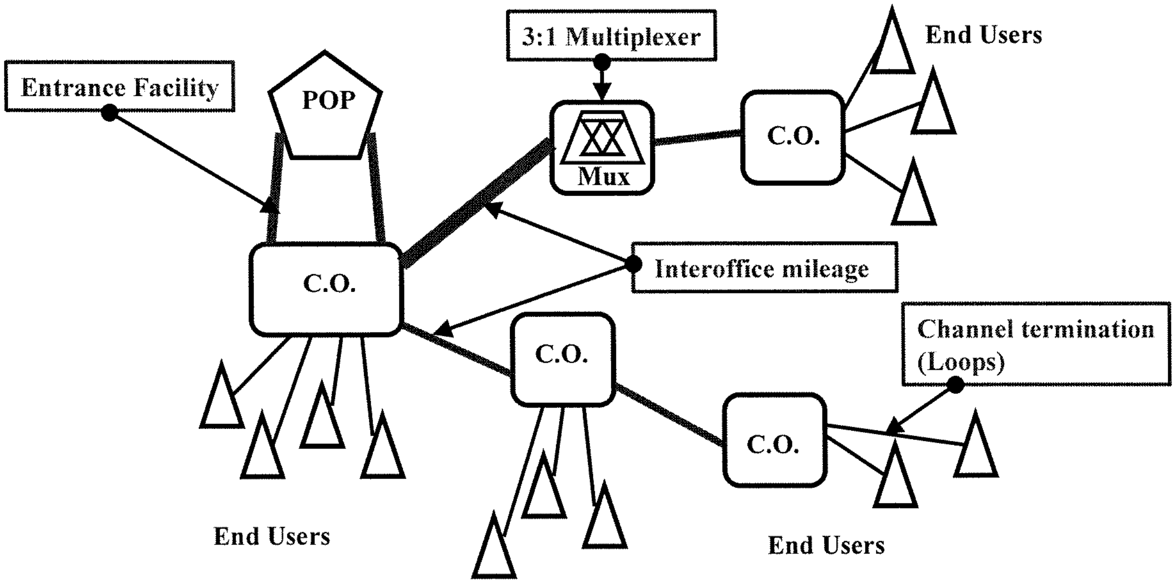
## Setting MIBS equal to the MARC




**SBC has proposed pricing MIBS to "Revenue Neutral" to SBC. Under this plan, the MIBs commitment would be set at the existing MVP MARC level. In the same manner as the MARC, the MIBS minimum expense commitments will encompass the entire existing expense stream to SBC, rendering the entire embedded base un-addressable by competing suppliers and technologies.**

**It should be noted that AT&T is already "below the MARC" – SBC's MIBS proposal eliminates any opportunity to re-cast the MARC to reflect current levels of actual service expense, and perpetuates the MARC commitments made in September 2001.**

## Current Rate Structure




*AT&T's network expense can be significantly reduced by increasing utilization from current levels.*

*MIBS envisioned a "virtual" optimization benefit to AT&T by significantly discounting network components rolled into the "MNI" rate element*

**Significant improvements in AT&T's network utilization are stymied by expense commitment levels in place under the current MVP tariff.**

**SBC's decision to set MIBS pricing at levels equal to AT&T's current expense perpetuates SBC's relative unit cost disadvantage. Incremental unit cost improvements from "buying more MIBS" is insufficient to close a deepening unit cost gap**

**Under MIBS, AT&T has no meaningful opportunity to improve the utilization of the network elements it has paid for. SBC can, however, utilize any available capacity on under-utilized facilities to support other customers or their own retail products.**

- Customers Cannot Chose Commitment Levels
  - Requires Customer Commitments on Expense Levels Generated 3 Years Ago
  - SBC is Forcing a Higher Commitment than the Current Run Rate
  - Immediate Shortfall – only way to counteract is to move volumes from CLEC/CAP's and AT&T Network to SBC's Network
- Commitment Cannot Decrease
  - Adding Customers to AT&T's Base Automatically Increases the Bandwidth and Revenue Commitment Levels to SBC, thus Forcing a Higher Expense Commitment than the Current Run Rate
  - Adding Bandwidth increases the Bandwidth Minimum Revenue Commitment Level
  - Core Capacity can only go up
  - Commitment Increases are Non-Discretionary
  - MIBS Pricing is set to be "Revenue Neutral" to SBC.

## Anti-Competitive Issues

- Commitment periods are unrealistically long in time of rapid technology change and dramatic changes in end-user application requirements
  - Five or Seven Year Commitment Requirement
- Commitment Decrease Requires Market Exit and Subsequent Termination Penalties
- Because MIBS is Managed at the LATA Level, it Prohibits the use of Competitive Suppliers
  - MIBS Requires Commitments in all SBC LATA's where Customer has Presence
  - All eligible services in all LATA's must be purchased under MIBS
  - Cannot Purchase from Alternative Suppliers, even if Price Advantage
  - Lock-in Unit Cost that is 66% Higher than CLEC/CAP's
- MIBS is a Revenue Plan – it does not recognize Volume, Circuits, or Bandwidth
  - As Such, Network Efficiency by Replacing Legacy Services with Next Generation Services, which has a lower Unit Cost and Reduces Billing, does not Convey back to the Customer

If there were alternatives…

- No customer would accept the anti-competitive terms of MVP or MIBS
- **Things have changed, and more change is possible through competition and new technology.**
- **Future plans (like MIBS) cannot be allowed to lock in these levels.**
  - **Plan requirements must not "look back".**
  - **Plans must look forward.**